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SUBJECT: MACEDONIA: FISCAL TRANSPARENCY REPORT

Relatively High Fiscal Transparency

1. The GOM has developed a relatively high degree of fiscal transparency, as a result of reforms it has undertaken as part of its effort to join NATO and the European Union. Macedonia, as an EU candidate country, is in the process of raising its budgetary practices to EU standards and receives support from the EU for this purpose. The IMF's Report on Observance of Standards and Codes (ROSC) for Macedonia, published in July 2006, stated that "the annual budget process is transparent, and the budget presentation is rapidly moving toward international best practice."

Budget Information Publicly Available

2. The Organic Budget Law provides the legal framework for the GOM's budgetary practices, and transparency is one of the explicit guiding principles of the law. The law mandates "public awareness of all phases of preparation and execution of the budget," and is implemented in practice. Soon after Parliament passes the annual budget, the full detailed budget is published in the publicly available Official Gazette and is posted on the Ministry of Finance's (MOF) internet site. This budget document provides accurate and meaningful information on all revenues, expenditures, and financing. The accompanying budget execution law that provides further instruction on the implementation of the budget is also posted on the MOF internet site. In addition, a more readable and citizen-friendly version of the budget, called "Budget in Brief," has been published for three years, with the support of the U.S. Department of the Treasury.

U.S. Assistance For Budget Transparency

3. The U.S. Department of the Treasury's Resident Advisor assists the GOM with its budgetary process. The Resident Advisor has helped with the drafting of the Organic Budget Law and amendments to the law, to develop the budget classification system, and to institutionalize modern budget practices. In addition, the Department of the Treasury program is assisting the GOM in developing performance indicators to show in quantitative terms the major activity performed by a budgeted program. For the 2008 budget, output indicators were implemented for over 90 percent of the budget programs, an exponential increase over previous years. These budget indicators are included in the published budget and posted on the MOF internet site, allowing citizens to see the projected outcomes of specific government programs.

4. As part of its assistance, USAID provided the GOM with a software system to efficiently prepare the national budget and monitor its execution. This system allows the various government budget users to electronically prepare and submit their annual budget to the MOF. Once the budget is approved, the system allows the MOF to electronically monitor spending by the budget users. The GOM used this system for the first time in 2007 to prepare the 2008

budget, providing improved internal transparency and oversight of the budget preparation and execution.

¶5. Since July 2005, the GOM has decentralized many government activities to the local municipalities, and is now transferring funds from the central government budget to municipal governments to implement those new responsibilities. USAID has provided extensive support to Macedonian local governments to improve the effectiveness and transparency of their budgetary procedures and financial management. As part of this initiative, USAID introduced budget hearings and citizen involvement in the budget process of municipalities. Our assistance is also focused on reducing the amounts of "other services and costs" categories from the municipal budgets, which will lead to increased transparency of municipal expenditures.

¶6. The USAID Parliamentary Development program is helping to strengthen the capacity of the Macedonian Parliament, including its oversight function. As the parliament's oversight capacity has increased, it is becoming more proactive in reviewing the GOM's proposed budget. In 2007, the parliament for the first time demanded and secured significant changes to the GOM's proposed budget.

Navratil